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Department of Public Utilities

One South Station  $-2^{nd}$  Floor

Boston, MA 02110

RE: D.P.U. 07-50 – Investigation by the Department of Public Utilities (DPU)

on its own Motion into Rate Structures that will Promote Efficient

Deployment of Demand Responses

Dear Secretary Cottrell:

Jon B. Hust

Enclosed for filing on behalf of the Retailers Association of Massachusetts are

comments concerning the above referenced proceeding.

Please contact me if you have any questions.

Sincerely,

Jon B. Hurst President

Encl.

### **Commonwealth of Massachusetts**

# **Department of Public Utilities**

Investigation by the Department of Public Utilities	)	<b>D.P.U.</b> 07-50
on its own Motion into Rate Structures that will	)	
Promote Efficient Deployment of Demand Resources	)	

### **Comments of The Retailers Association of Massachusetts**

#### Introduction

The Retailers Association of Massachusetts submits the following comments in response to the Department's request in the above referenced proceeding.

The Retailers Association of Massachusetts (RAM) is a statewide organization representing over 3,000 retail sector employers (stores, restaurants and various service providers) operating in over 10,000 locations. RAM was organized in 1910 to serve as the "Voice of Retailing" in the Commonwealth, and today provides public affairs, legislative and regulatory advocacy, as well as group buying and educational services for the industry and membership. The retail trade sector employs 560,000 individuals in over 40,000 locations across the state, with annual sales exceeding \$100 billion statewide. The industry annually collects \$4 billion in sales tax on behalf of the Commonwealth.

Retailers of all sizes are disadvantaged in three ways with the high cost of electricity in Massachusetts:

1. Higher local operating costs, with energy representing as much as 20% of the fixed costs of doing business (which are passed on to customers in the form of higher prices);

- 2. Lower disposable income for local consumers, which mean lower retail sales; and
- 3. By lower long-term job growth and retention in the region.

Local sellers are local employers, local taxpayers and tax collectors, and they are seeing their market share decrease each year to competition on the Internet--which has seen several years of annual double digit growth. For most local retail employers, electricity costs represent the second highest operating costs they have, behind the cost of labor. Competitors on the Internet are not hindered by the high cost of local electricity, labor, taxes, our well documented state population loss, or even by the need to collect Massachusetts sales taxes, so therefore their prices are often lower and their sales continue to grow rapidly. Yet no one in the retailing industry is looking for a guaranteed rate of return, a bailout or subsidy for owners or shareholders. Rather all our industry seeks for the future of our Massachusetts Main Streets is that we control the costs of doing business in the Commonwealth and seek a level playing field with our out of state competition. The future of electricity and natural gas pricing is an important part of that equation.

## **Executive Summary**

The retailing industry recognizes how vital energy conservation efforts are for cost avoidance and environment reasons. For those reasons, RAM and our members have promoted Energy Star appliances, CFL's and sales tax exemptions and tax holidays for those important products. RAM recognizes that energy conservation efforts may have an impact on the bottom line of electric utility distribution companies, yet we have concerns with automatic adjustments envisioned in the decoupling notion, especially at current guaranteed rates of return. If the proposed new decoupling rate design does move forward, however, RAM urges the Department to consider (1) whether it should apply to all rate classes, (2) whether an appropriate reduction should be made in the utility's return on equity as their stockholder's level of risk has been lowered, and (3) whether the current system benefits charge for conservation should continue to be administered through the utilities.

### **Comments**

The Retailers Association of Massachusetts understands the reasoning behind decoupling. However we have serious questions about the need to order decoupling, as well as whether it may lead to unintended consumer energy usage incentives, and whether it will lead to cost shifts in the commercial class.

Energy conservation is very important and our industry has been promoting the concept, not only to our member companies, but to consumers for years. Our association has for many years supported legislation to earmark a portion of the energy efficiency funding we consumers pay on our electricity bills towards a mandated consumer sales tax offset when Energy Star appliances are purchased. Interestingly, this legislation has been opposed by some of those same organizations that purport to be promoting energy efficiency—including consultants and electric

utility distribution companies—that are today promoting decoupling. We can only surmise such opposition was due to a desire to continue to administer the funds as they see fit--and to continue to enjoy the revenues some receive on the energy efficiency dollars.

If decoupling does move forward, any energy efficiency revenue or markup should be lowered.

There have always been risks for energy distribution companies of variation in sales that can impact their profitability. For years, risks have existed that energy conservation and cogeneration would lower consumption. Likewise, weather variations, consumer economic conditions, and employment conditions have also always existed as risk factors for local utilities.

For consumers, the high price of energy has been a risk as well—a risk to their disposable incomes, jobs and lifestyle. The price of energy furthermore becomes a consumer incentive. Existing rate structure creates incentives for consumers—both residential and employer consumers—to help their own financial situation by lowering their consumption. We wonder whether decoupling will create a reverse incentive to energy consumers on lowering their consumption and costs, because their control over their own bills will be more limited in the future. If decoupling mechanisms result in price increases when sales fall, and price decreases when sales increase, the Department could be sending counterintuitive price signals and creating the wrong consumption incentives.

Should the Department decide that decoupling is viable despite the potential reverse consumer consumption incentives, RAM urges an appropriate downward adjustment in the utilities' allowed rate of return due to the substantial reduction in risk to the stockholders of the company.

The proposed decoupling design with allowed revenues per customer raises concerns within the commercial class. Usage levels and patterns vary widely with certain larger users. As the number of customers grow within a rate class, historically the sales volume of the utility grows. Yet, there are times when newer customers may have a lower average consumption, which can lead to lower overall sales volume per customer. In these cases, existing customers should not be asked to pay higher rates because their consumption patterns did not have any impact on the distribution company's inability to earn its Department authorized revenues. Likewise, if a large commercial customer leaves a service area, we have concerns that major cost shifts to remaining employers may occur.

Due to this potential cost shifting risk, the Department may wish to consider whether decoupling works for all customers from all classes and sizes.

The Retailers Association of Massachusetts thanks the Department for the opportunity to submit these comments. At this time, RAM is not requesting a panel presentation before the Department, however, should the Department view it as advantageous to hear expert testimony

from the retail employer sector and commercial class, we would be happy to bring in energy managers from one or more national retail chains with experience in other states on this issue.

Respectfully submitted,

Jon B. Hurst President

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